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RR RUEHBI RUEHCI RUEHLMC
DE RUEHLM #0662/01 1921022
ZNR UUUUU ZZH
R 101022Z JUL 08
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 8393
INFO RUEHBJ/AMEMBASSY BEIJING 1238
RUEHKA/AMEMBASSY DHAKA 1002
RUEHIL/AMEMBASSY ISLAMABAD 7991
RUEHKT/AMEMBASSY KATHMANDU 6163
RUEHNE/AMEMBASSY NEW DELHI 2163
RUEHKP/AMCONSUL KARACHI 2368
RUEHCG/AMCONSUL CHENNAI 8597
RUEHBI/AMCONSUL MUMBAI 6042
RUEHCI/AMCONSUL KOLKATA 0371
RUCPDO/USDOC WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION

UNCLAS SECTION 01 OF 02 COLOMBO 000662

SENSITIVE

SIPDIS

STATE FOR SCA/INS AND SCA/RA
STATE PASS USTR
COMMERCE FOR JONATHAN STONE
TREASURY FOR LESLIE HULL

E.O 12958: N/A

TAGS: [ECON](#) [EINV](#) [PREL](#) [CE](#) [IN](#) [CH](#)

SUBJECT: SRI LANKA: INDIAN GOVERNMENT AND FIRMS INVEST IN SRI LANKA
INFRASTRUCTURE PROJECTS

REF: 07 COLOMBO 1093

11. (SBU) SUMMARY: The Indian government and Indian parastatal and private firms are lending to or investing in a number of major infrastructure projects in Sri Lanka. Projects that have been in the discussion stage for some time are gaining momentum as the two sides prepare deliverables for the upcoming South Asian Association for Regional Cooperation (SAARC) summit in Sri Lanka. While China's infrastructure loans exceed India's investments, Sri Lanka-India trade ties make up for India's less aggressive aid presence. End summary.

COAL POWER PLANT IN TRINCOMALEE

12. (SBU) The highest profile Indian investment being discussed is for a 500 megawatt coal fired power plant in the strategic Eastern Province town of Trincomalee. The \$500 million project would be a joint venture between India's parastatal National Thermal Power Corporation (NTPC) and the fully state-owned Ceylon Electricity Board (CEB). The two would form a joint venture company for implementation of this project. Investment would be 70% debt and 30% equity equally shared by NTPC and CEB. It would be one of the largest external investments in Sri Lanka's infrastructure and would add about 20% to the country's power generation capacity. Completion is targeted for 2012.

13. (SBU) The project is controversial because the Government of Sri Lanka wants the plant to be built in Sampur, the strategic peninsula at the southern mouth of Trincomalee harbor, which the government retook when it pushed the Liberation Tigers of Tamil Eelam (LTTE) out of the East. Since then, the government has declared Sampur a High Security Zone, limiting access to the area. Tamil residents displaced from Sampur have been restricted from returning to their homes within the zone and fear the project will be built on their former land.

14. (SBU) After earlier rejecting the Sampur site (reftel), India in May agreed to it. Indian Embassy Economic Counselor told Econoff that India had indeed opposed the Sampur site, and had considered other sites Sri Lanka offered closer to Trincomalee town. But, he said, those sites had technical complications that led the NTPC to conclude that Sampur was its best option. The GSL, he said, had

reassured India that it did not intend to exclude Tamil residents from the area, and that indeed it hoped they could be trained to work in the construction of the project.

COLOMBO-MATARA RAILWAY LINE OF CREDIT

¶15. (U) Three years after India offered Sri Lanka a \$100 million line of credit to repair railways damaged by the 2004 Indian Ocean Tsunami, the project is now proceeding. Sri Lanka intends to use the funds to buy commuter rail carriages from India, to improve the rail tracks and signal system between Colombo and Matara on the southern coast, and to renovate the Galle railway station. The Export-Import Bank of India is providing the line of credit.

PRIVATE SECTOR INFORMATION TECHNOLOGY PARKS

¶16. (U) In June 2008, the Sri Lanka Board of Investment (BOI) issued a Letter of Intent to two Kolkata-based companies, Infotech Parks Ltd and PS Group Realty, to build a 1.6 million square feet information technology (IT) park in Malabe, just outside Colombo. The consortium was selected after a rigorous bidding process. The two companies will develop the park and will be responsible for marketing it to Sri Lankan and international IT companies.

¶17. (U) In February 2008, the BOI signed a memorandum of understanding with Mahindra and Mahindra Group of India to set up an IT park on a 53 acre site in Katunayake, near Colombo's international airport. The plan envisions about three million square feet of office space. Mahindra would invest \$100 million in

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building and managing the park and would market it to interested IT and business process outsourcing companies. Planners envision the project creating 25,000 IT jobs.

¶18. (SBU) Mahindra Group has also had initial talks with Sri Lankan government investment officials about building and managing a 3,000 acre Export Processing Zone in Trincomalee. The BOI is reportedly currently making arrangements to acquire the required land, though this project seems to be far from implementation.

UNDERWATER ELECTRICITY TRANSMISSION CABLE

¶19. (SBU) India and Sri Lanka intend to study the feasibility of an underwater power transmission line between the two countries. The transmission line would primarily enable Indian power producers to sell electricity to the Sri Lankan market. Sri Lanka, with a shortfall in production and high power costs, needs the power and would pay less for it than it would domestically. Indian power producers would receive higher than local rates for their excess power. Over the long run, after Sri Lanka increases capacity to meet domestic demand, power could flow in both directions. Moreover, analysts say the two markets have different peak periods, making it possible for Sri Lanka, despite its more expensive power, to export during peak demand periods in India. The undersea linkage would extend from Anuradhapura to Talaimannar in Sri Lanka and then to Rameshwaram and on to Madurai in India.

¶110. (SBU) Experts with USAID's South Asia Regional Initiative for Energy (SARI/Energy) consider this project worthwhile. SARI/Energy in 2006 commissioned the Powergrid Corporation of India to conduct a "pre-feasibility" desktop study of this proposal, which found that it appeared fundamentally viable. India has told SARI/Energy staff that it would like the \$500 million project to be a government to government initiative; if the feasibility study concludes the project is viable, the two governments could elect to seek multilateral development bank funding for the project.

COMMENT: INDIA'S INVESTMENT LAGS CHINA'S AID,
BUT TRADE FAR EXCEEDS THAT WITH CHINA

¶11. (SBU) The Indian projects in the works add a significant

investment dimension to an economic relationship that had previously been limited mostly to trade. In all, the Indian government-driven projects are slated to be worth around \$400-600 million, and the private projects another \$200-300 million. This is well below the \$1.25 billion China is providing, mostly in low-interest loans, to develop a 300MW coal power plant, a bulk goods port and fuel bunkering facility, an airport expressway, a performing arts theatre, and new railway carriages. On the other hand, Sri Lanka's trade volume with India still far exceeds that with China. Sri Lanka-India bilateral trade totaled \$3.1 billion in 2007, whereas Sri Lanka-China trade that year was about \$960 million. Most importantly for Sri Lanka, its exports to India in 2007 were \$515 million versus \$34 million to China. This trend is likely to be strengthened by a Comprehensive Economic Partnership Agreement that Sri Lanka and India intend to sign at the upcoming SAARC summit, which would add to the two countries' existing Free Trade Agreement.

BLAKE